

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF RIGHT BEAVER GAS)	
COMPANY FOR A RATE ADJUSTMENT)	
PURSUANT TO THE ALTERNATIVE RATE)	CASE NO. 10404
FILING PROCEDURE FOR SMALL UTILITIES)	

O R D E R

On October 6, 1988, Right Beaver Gas Company ("Right Beaver") filed an application seeking to increase its rates pursuant to 807 KAR 5:076, Alternative Rate Filing Procedure for Small Utilities. The proposed rates would generate approximately \$1,517 or approximately 18.46 percent in additional annual revenues.

On October 20, 1988, Bob Roberts and a group of Right Beaver customers ("Intervenors") filed a letter requesting intervention in this proceeding. The Commission treated the letter as a Motion for Full Intervention, which was subsequently granted on October 27, 1988.

On November 30, 1988, Staff issued its Report recommending an increase in annual revenues of \$11,948. On December 16, 1988, Right Beaver notified the Commission that it agreed to accept the findings and recommendations contained in the Staff Report. The Intervenors informed the Commission on January 3, 1989, that while they were willing to accept the Staff Report and not request a hearing, they requested that the Commission consider several questions before making a final determination on the proposed rate increase.

The Intervenors raised four specific questions in the January 3, 1989 letter. First, the Intervenors indicated that it was their belief that there were more than 51 customers on the Right Beaver distribution system. The Commission has reviewed the record in this case, and while we acknowledge that there are record-keeping problems at Right Beaver, there is no documentation that indicates that a customer level of 51 is inaccurate or inappropriate. Therefore, the Commission believes a customer level of 51 is reasonable to use for rate-making purposes.

The Intervenors' second question was whether the gas cost from the gas supplier to Right Beaver included the cost of free gas that the supplier was providing to some of Right Beaver's customers. There is no documentation in the record to indicate that any customer on the Right Beaver system is receiving free gas, either from Right Beaver or its supplier. The cost of gas determined in the Staff Report is based on estimated sales to the 51 customers. Therefore, if any customers were receiving free gas, the cost has not been included in this case for rate-making purposes.

As their third concern, the Intervenors felt that the amount of gas sold by Right Beaver is considerably more than what was reported to the Commission. The same concerns were raised in the Staff Report. We likewise agree with those concerns. The Staff Report proposed rates which were based on an estimated metered usage which should reflect a more reasonable level of gas sales than that reported by Right Beaver. Under this rate structure, there is no incentive to Right Beaver to underbill any customer or

to provide free gas. The consequences of any such action would be the failure of Right Beaver to earn sufficient revenue to pay its purchased gas cost and other expenses. Thus, the Commission believes that this Order addresses the concerns which the Intervenor have raised regarding customers who receive free gas and the actual volume of gas sales.

Finally, the Intervenor indicate that not all of the gas moving through the Right Beaver system is used by its customers. The excess volumes of gas are sold to the Kentucky-West Virginia Gas Company ("Kentucky-West Virginia"). The Intervenor ask questions about the volumes of gas sold to Kentucky-West Virginia and the revenues generated from the sales. It is the Commission's understanding that there are no excess volumes of gas returning to the gas supplier's system. Furthermore, Right Beaver is not directly connected to the Kentucky-West Virginia system and thus earns no revenues from its supplier or Kentucky-West Virginia.

After a review of the record in this matter, the Commission is of the opinion that the Staff Report reflects the reasonable revenue requirements of Right Beaver and will provide adequate rates to allow Right Beaver to have adequate cash flow to meet its operating expenses and provide for reasonable equity growth. Therefore, the Commission adopts Staff's recommended increase in revenues of \$11,948, an increase of 117.14 percent over normalized test-year operating revenues. The Commission is aware that the increase is a significant amount. However, the Commission notes that the increase proposed by Right Beaver would have produced a net operating loss. In addition, the Commission notes that the

increase in the cost of gas and the assumptions of the Mcf volumes purchased and sold have contributed materially to the revenue increase. The Staff Report addresses these factors in detail and the Commission adopts the rationale and recommendations of Staff.

In the Report of November 30, 1988, the Staff recommended the approval of the Purchased Gas Adjustment ("PGA") filed by Right Beaver, after certain wording, grammatical, and language changes were made. The Commission is of the opinion that this recommendation of the Staff Report is reasonable and should be adopted. A revised PGA tariff is attached as the Appendix.

In its Report, the Staff addressed seven issues which relate to the current proceeding or the accountability of Right Beaver. The Report also contained proposals and recommendations on how to resolve these issues. The Commission has reviewed the proposals and recommendations and has made the following determinations:

1. Mcf Volumes - Sales and Purchases. Because of questions concerning the accuracy of Right Beaver's Mcf sales and purchases information, the Staff recommended that an average monthly usage of 8.5 Mcf be used in the calculation of purchased gas expense and the proposed customer rates. The 8.5 Mcf was the 1987 average usage for all gas distribution companies regulated by the Commission, excluding Right Beaver. The Staff Report also acknowledged that there were some risks in using an estimate, but the use of the 8.5 Mcf appeared realistic. Given Right Beaver's circumstances, the Commission is of the opinion that this recommendation of the Staff Report is reasonable and should be adopted. In order to monitor the actual Mcf purchases and sales, Right Beaver should

be required to file monthly reports detailing the Mcf actual reading for purchases, the Mcfs actually billed by the supplier, and the Mcfs actually sold.

2. Customer Records. The Staff recommended that Right Beaver should make the necessary corrections to its customer account number system to make the system functional. The Commission concurs with this recommendation.

3. Customer Gas Bills. The Staff recommended that Right Beaver review its current gas bill form to determine if the form was in compliance with applicable state regulations and conformed with the current tariff on file for Right Beaver. The Commission is of the opinion that this recommendation is reasonable and should be adopted.

4. Improvements in Utility Plant. In its review of the reconstruction of Right Beaver's distribution system, the Staff noted several accounting and financing concerns. More specifically, these concerns involved the accounting for the changes in Right Beaver's utility plant, the collection of funds from existing customers toward the reconstruction expense, and the means Right Beaver will use to pay for the reconstruction. The Commission is of the opinion that the recommendations in the Staff Report are reasonable and should be adopted. Within a reasonable time, Right Beaver should file with this Commission the accounting entries recommended in the Staff Report of November 30, 1988 and a detailed explanation of the means Right Beaver plans to employ to finance the reconstruction of its utility plant.

The Commission notes that the Staff review of applicable administrative regulations and Right Beaver's tariffs did not allow Right Beaver to collect funds from its existing customers to pay for the reconstruction of the system. The Staff Report recommended that these collections be refunded to the appropriate customers and the Commission concurs with this recommendation. Accordingly, Right Beaver should file proof that all funds collected from existing customers for the reconstruction of that portion of the system known as "the loop" be refunded.

The Commission notes that KRS 278.300 requires that no utility shall issue any securities or evidences of indebtedness unless authorization from the Commission has been obtained. Right Beaver should also evaluate its financing options and file the appropriate application with this Commission.

5. Compliance with Technical Assistance Report. The Staff examined Right Beaver's compliance with a Technical Assistance Report issued on February 2, 1987 by the Financial Audit Section of the Commission. The Staff noted areas where Right Beaver had not complied with the recommendations of that Report. The Commission is of the opinion that the original recommendations of the Technical Assistance Report were reasonable and should be adopted. Right Beaver should provide the Commission with an explanation on how it intends to implement the remaining recommendations.

6. Examination of 1988 Transactions. The Staff recommended that the owner of Right Beaver cease the practices of paying personal expenses from the checking accounts of Right Beaver and establish a per-mile reimbursement rate for the use of his

personal vehicles for the utility's business. The Commission is of the opinion that the recommendations of the Staff Report are reasonable and should be adopted.

7. Future Proceedings. The Staff recommended that Right Beaver file another case in 1990. This was based upon concerns of the Staff about the circumstances under which Right Beaver currently operates. The Commission advises Right Beaver to review its financial position after calendar year 1989 and take appropriate action as it deems necessary.

The Commission has approved the requested PGA tariff and said tariff shall be effective on and after the date of this Order. The Commission has reviewed the numerous other issues contained in the Staff Report and made its determinations on the disposition of those issues. Numerous reporting and filing requirements have been outlined in the Findings and Orders Section of this Order, and those requirements are to be met by the date indicated.

As stated earlier, the Commission approves the rates contained in the Appendix to this Order for services rendered by Right Beaver on and after the date of this Order. However, on January 18, 1989, the Commission received information that Right Beaver had implemented the rates approved herein. An Order was issued on January 19, 1989 in this case ordering Right Beaver to cease and desist from charging unauthorized rates and further ordering that Right Beaver appear at a hearing scheduled for February 13, 1989 at 1:30 p.m. and show cause why it should not be penalized for implementing rates prior to obtaining approval from this Commission. Therefore, this case shall remain open until

such time as the issues raised in the show cause proceeding have been resolved to the Commission's satisfaction.

FINDINGS AND ORDERS

The Commission, after consideration of the evidence of record and being advised, is of the opinion and finds that:

1. All recommendations of the Staff Report should be adopted.

2. Right Beaver should be granted rates which would produce additional operating revenues of \$11,948.

3. The rates in the Appendix, attached and incorporated hereto, are the fair, just, and reasonable rates to be charged by Right Beaver for service rendered on and after the date of this Order. The rates will produce annual operating revenues of \$22,148.

4. Within 30 days from the date of this Order, Right Beaver should file with this Commission its revised tariff sheets setting out the rates approved herein.

5. The PGA tariff, as presented in the Appendix, should be incorporated in Right Beaver's tariff filing.

6. Beginning with the first full month after the date of this Order, Right Beaver should file with this Commission monthly reports which document its monthly gas purchases and sales. The report should include the actual Mcf reading for gas purchased from Right Beaver's supplier for the month, the Mcfs that the supplier has billed Right Beaver for the month, and the total Mcfs sold by Right Beaver for the month. The report should be due 30 days after the end of the reporting month.

7. Within 60 days from the date of this Order, Right Beaver should file with this Commission a detailed explanation of how it plans to implement the following Staff recommendations which the Commission has adopted in this Order.

a. Improve the Customer Account number system.

b. Determine how Right Beaver will pay for its distribution system reconstruction.

c. Implement the remaining recommendations of the February 2, 1987 Technical Assistance Report.

d. Cease the practice of paying the owner's personal expenses with Right Beaver funds.

e. Determine and implement the use of a per-mile reimbursement rate for the use of owner vehicles for Right Beaver business.

8. Within 30 days from the date of this Order, Right Beaver should file with this Commission a copy of its revised customer gas bill form, reflecting Right Beaver's compliance with applicable state statutes and regulations.

9. Within 30 days from the date of this Order, Right Beaver should file with this Commission the accounting entries outlined in the Staff Report of November 30, 1988 concerning the replacements of its utility plant.

10. Within 60 days from the date of this Order, Right Beaver should file with this Commission documented proof that all funds collected from existing Right Beaver customers served by the section of the distribution system referred to in the Staff Report as

"the loop," for the construction of the loop, have been refunded to those customers.

IT IS THEREFORE ORDERED that:

1. All recommendations of the Staff Report are hereby adopted.

2. Right Beaver be and hereby is granted rates to produce additional annual operating revenues of \$11,948 over normalized test-year operating income of \$10,200.

3. The rates in the Appendix, attached and incorporated hereto, are the fair, just, and reasonable rates to be charged by Right Beaver for service rendered on and after the date of this Order.

4. Within 30 days from the date of this Order, Right Beaver shall file with this Commission its revised tariff sheets setting out the rates approved herein.

5. Right Beaver shall comply with Findings 5 through 10 as if the same were individually ordered.

Done at Frankfort, Kentucky, this 2nd day of February, 1989.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman

ATTEST:


Commissioner

Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 10404 DATED 2/2/89

The following rates and charges are prescribed for the customers served by Right Beaver Gas Company. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the date of this Order.

CURRENTLY EFFECTIVE BILLING RATES

<u>Rate Schedule</u>	<u>Billing Rate</u>
Residential and Domestic:	
Minimum Bill (1 MCF)	\$4.75
All Additional MCF	\$4.20

PURCHASED GAS ADJUSTMENT CLAUSE

The rates authorized herein are based upon the wholesale cost of gas to Right Beaver as computed upon rates of its wholesale supplier currently in effect. For the purpose of this purchased gas adjustment clause, this rate shall be considered as the base rate for purchased gas. In the event there is an increase in this base rate, Right Beaver shall file with this Commission the following information:

- (1) A copy of the tariff effecting the change in the base rate and a statement relative to the effective date of such proposed change.
- (2) A statement setting out the details of gas purchased under the provision of the base rate for the previous 12 months showing billing under the base rate and under the proposed revised rate applicable to this service.
- (3) A statement setting out the details of gas sold for the previous 12 months.
- (4) A balance sheet as of the end of the latest 12 month period and a statement of operating expenses and revenues in the same detail as reported to this Commission in Right Beaver's annual report.

(5) Such other information as this Commission may request for proper determination of the purchased gas adjustment.

In the event there is a decrease in purchased gas cost or refund, Right Beaver shall file the information required in 1, 2 and 4 above.

Upon receipt of this information, this Commission will review the effect of the revised rate on the operation of Right Beaver and will issue its Order setting out the purchased gas adjustment that Right Beaver shall apply to its rates.

The maximum amount of the adjustment so prescribed shall not produce revenue adjustments, based upon the actual preceding 12-month period, greater than the difference between the purchased gas billed at the then existing rate and the purchased gas billed at the revised rate.

On and after the effective date of this rate schedule, if any increase or decrease is made in the rate at which Right Beaver's gas supplier sells gas to Right Beaver, the unit charges of the aforesaid rate schedule shall be increased or decreased by a purchased gas adjustment determined as follows:

(1) Gas purchases will be determined by Right Beaver under supplier's applicable rate schedule during a period of 12 calendar months ending within 3 months preceding the month of the effective date of the supplier's rate change. Such purchases shall be:

- (a) at the base supplier rate
- (b) at the new supplier rate

The difference between these amounts shows the total change in purchased gas costs.

(2) The total change in purchased gas costs shall be divided by the actual number of cubic feet of gas sold by Right Beaver during said 12-month period, yielding the purchased gas adjustment expressed in cents per cubic feet, unless Right Beaver's gas loss exceeds 5 percent. The unit charge or credit so determined shall be the purchased gas adjustment applicable to consumer billings.

In instances where the gas loss exceeds 5 percent, the actual gas sales shall be divided by 95 percent, yielding the maximum allowable gas purchases. The maximum allowable gas purchases shall then be multiplied by the base supplier rate and new supplier rate with the difference yielding the total allowable change. The total allowable change shall then be divided by the actual number of cubic feet of gas sold by Right Beaver during the said 12-month period, yielding the unit charge or credit applicable to consumer billings.

(3) The new supplier rate shall become the base supplier rate to be used in measuring the effect of any subsequent supplier rate change. Each such subsequent change shall be treated in the same manner as set forth above for the establishment of a new purchased gas adjustment and for the establishment of a new base supplier rate.

In the event that Right Beaver receives from its supplier a refund of amounts paid to such supplier in respect of a prior period, Right Beaver will apply to the Commission for authority and upon receipt thereof make adjustments on the amounts charged to its customers under this provision as follows:

(1) The "refundable amount" shall be the amount received by Right Beaver as a refund. Such refundable amount shall be divided by the number of cubic feet of gas that Right Beaver estimates it will sell to its customers during the 4-month period commencing with the first day of the month following receipt of the refund, thus determining a "refund factor."

(2) Effective with meter readings taken on and after the first day of the second month following receipt of the refund, Right Beaver will reduce by the refund factor so determined any purchased gas adjustment that would otherwise be applicable during such period provided, however, that the period of reduced purchased gas adjustment will be adjusted, if necessary, in order to refund as nearly as possible the refundable amount.

(3) In the event of any large or unusual refunds, Right Beaver may apply to the Commission for the right to depart from the refund procedure herein set forth.

The base rate for purchased gas for the future application of this purchased gas adjustment clause is:

<u>Supplier</u>	<u>Rate</u>
Brushy Gap Coal and Gas	\$2.80/MCF